

Message Text

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43

ACTION EUR-25

INFO OCT-01 EA-11 ISO-00 SPC-03 SAM-01 AID-20 EB-11 NSC-10

RSC-01 CIEP-02 TRSE-00 SS-20 STR-08 OMB-01 CEA-02

CIAE-00 COME-00 FRB-02 INR-10 NSAE-00 XMB-07 OPIC-12

LAB-06 SIL-01 L-03 H-03 PA-04 PRS-01 USIA-15 EURE-00

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P R 311455Z JAN 74

FM AMEMBASSY PARIS

TO SECSTATE WASHDC PRIORITY 6500

INFO AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY THE HAGUE

AMEMBASSY LONDON

AMEMBASSY ROME

AMEMBASSY TOKYO

USMISSION EC BRUSSELS UNN

USMISSION OECD PARIS UNN

UNCLAS PARIS 2757

PASS TREASURY AND FEDERAL RESERVE

E.O. 11652: N/A

TAGS: EFIN, FR

SUBJECT: FINANCE MINISTER ANNOUNCES PLANS FOR LARGE EXTERNAL
BORROWING BY FRENCH TREASURY

IN MEETING WITH ECONOMIC JOURNALISTS ON MORNING OF JAN 31,
ECONOMICS AND FINANCE MINISTER GISCARD D'ESTAING MADE FOLLOWING
POINTS:

(1) FRENCH TREASURY IS PREPARING TO BORROW SUBSTANTIAL
AMOUNTS ON INTERNATIONAL FINANCIAL MARKET TO HELP FINANCE 1974
BALANCE OF PAYMENTS DEFICIT. FRANC PROCEEDS OF THIS BORROWING
WILL BE STERILIZED AT BANK OF FRANCE, WHEREAS FOREIGN EXCHANGE
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WILL BE CEDED TO BANK OF FRANCE FOR USE IN POSSIBLE INTERVENTION ON

EXCHANGE MARKET. (COMMENT: THERE IS SOME CONFUSION AS TO WHETHER THIS WOULD BE BOND FLOTATION OR NEGOTIATED BORROWING. TODAY'S LE MONDE TAKES LATTER LINE, REPORTING THAT OPERATION WOULD BE HANDLED THROUGH BANK CONSORTIUM UNDER LEADERSHIP OF SOCIETE GENERALE, ONE OF THREE LARGE NATIONALIZED FRENCH BANKS. THERE IS ALSO CONFUSION ABOUT AMOUNT ENVISAGED. LE MONDE ADVANCES FIGURE OF DLS1.5 BILLION.)

(2) U.S. DECISION TO REMOVE CAPITAL RESTRAINTS RAISES "NO OBJECTION ON PART OF FRANCE.Z THIS CAN BE LOOKED UPON AS NORMAL STEP IN SITUATION WHERE ARAB COUNTRIES WILL VERY LIKELY INVEST LARGE AMOUNTS IN U.S. THUS, FOREIGN BORROWERS WILL BE ENABLED TO TAP THESE RESOURCES.

(3) PARIS CHAMBER OF COMMERCE ERRED ON HIGH SIDE IN PREDICTING 12.5 PERCENT PRICE INCREASE IN 1974 (PARIS 2442, PARA 3). IN PARTICULAR, THEY ASSUMED NEW 20 PERCENT INCREASE IN PRICE OF CRUDE DURING YEAR, WHEREAS FRENCH GOVT BELIEVES OIL PRICE AT END OF YEAR WILL BE BELOW PRESENT LEVEL.

(4) DURING SPRING GOVT WILL TAKE SERIES OF ECONOMIC MEASURES, WHOSE SCOPE WILL BE COMPARABLE TO DECISION TO FLOAT FRANC. THESE WILL BE DESIGNED TO MODERATE PRICE RISES AND ENCOURAGE EXPORTS.

(5) FOR ABOVE REASONS, PRICE INCREASE DURING 1974 SHOULD BE UNDER 10 PERCENT.

(6) DECISION TO FLOAT FRANC WAS NOT DESIGNED TO GAIN TRADE ADVANTAGE THROUGH EXCHANGE RATE MANIPULATION, AND THAT IS WHY BANK OF FRANCE INTERVENED ON EXCHANGE MARKET TO DAMPEN DOWNWARD FLOAT OF FRANC. TOTAL VOLUME OF SUCH INTERVENTIONS WAS ROUGHLY SAME AS DURING WEEK PRECEDING FLOAT. DURING CURRENT WEEK BANK HAS NOT INTERVENED.STONE

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